

Tertiary Education Report: Te Pūkenga Single Stage Business Case for Key Systems funding

Date:	15 December 2022	TEC priority:	High
Security level:	In Confidence	Report no:	B-22-00809
		Minister's office No:	

ACTION SOUGHT		
	Action sought	Deadline
Hon Chris Hipkins Minister of Education	<p>agree to endorse Te Pūkenga's Single Stage Business Case for Key Systems funding and either:</p> <ul style="list-style-type: none"> approve the release of the full \$16 million in Crown funding as sought by Te Pūkenga OR approve the release of \$15.6 million in Crown funding given \$0.4 million of the request is for spend not aligned with the purpose of the 'Key Systems' funding in the Crown funding agreement. <p>forward this briefing to the Minister of Finance for his consideration and agreement.</p>	As soon as practicable
Hon Grant Robertson Minister of Finance	<p>agree to endorse Te Pūkenga's Single Stage Business Case for Key Systems funding and either:</p> <ul style="list-style-type: none"> approve the release of the full \$16 million in Crown funding as sought by Te Pūkenga OR approve the release of \$15.6 million in Crown funding given \$0.4 million of the request is for spend not aligned with the purpose of the 'Key Systems' funding in the Crown funding agreement. 	As soon as practicable
Enclosure: No	Round Robin: Yes	

CONTACT FOR TELEPHONE DISCUSSION (IF REQUIRED)

Name	Position	Telephone	1st contact
9(2)(a)	Principal Advisor	9(2)(a)	✓
Gillian Dudgeon	Deputy Chief Executive – Delivery	9(2)(a)	

THE FOLLOWING DEPARTMENTS/AGENCIES HAVE SEEN THIS REPORT

- | | | | | | | |
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| <input type="checkbox"/> DPMC | <input type="checkbox"/> MPI | <input type="checkbox"/> ENZ | <input type="checkbox"/> ERO | <input type="checkbox"/> MBIE | <input checked="" type="checkbox"/> MoE | <input type="checkbox"/> MFAT |
| <input type="checkbox"/> MPP | <input type="checkbox"/> MSD | <input type="checkbox"/> NZQA | <input type="checkbox"/> NZTE | <input checked="" type="checkbox"/> TEC | <input type="checkbox"/> TPK | <input checked="" type="checkbox"/> Treasury |

- Minister's Office to Complete:**
- | | |
|---|--|
| <input type="checkbox"/> Approved | <input type="checkbox"/> Declined |
| <input type="checkbox"/> Noted | <input type="checkbox"/> Needs change |
| <input type="checkbox"/> Seen | <input type="checkbox"/> Overtaken by Events |
| <input type="checkbox"/> See Minister's Notes | <input type="checkbox"/> Withdrawn |

Comments:

Recommendations

Hon Chris Hipkins, Minister of Education, **Hon Grant Robertson**, Minister of Finance,

It is recommended that you:

1. **note** that a funding agreement was established on 31 August 2020 between Te Pūkenga and the Crown, which sets out the terms and conditions of the Crown's investment in Te Pūkenga for its establishment and transformation programme as agreed by Cabinet on 20 July 2020 [CAB-20-MIN-0336 refers].
2. **note** that \$4 million in 'Key Systems' funding was provided to Te Pūkenga following the funding agreement being signed and the remaining \$16 million is to be paid on Ministerial endorsement of a Single Stage Business Case (SSBC).
3. **note** that the SSBC has undergone an Independent Quality Assurance assessment by IQANZ, which provided positive ratings for all aspects of the business case.
4. **note** that Te Pūkenga submitted a Programme Business Case (PBC) in October 2022 seeking a further ^{9(2)(f)(iv)} of Crown investment through Budget 2023, the large majority of which is for IT systems integration, and the SSBC is aligned with the PBC.
5. **note** that the SSBC seeks \$15.6 million in funding to implement three technology solutions and a further \$0.4 million in funding to progress the development of a technology roadmap and a business case for the first tranche of IT systems integration as identified in the PBC.
6. **note** that while we consider the proposed use of the \$0.4 million in funding would support Te Pūkenga to progress a key area of work, it is not aligned with the purpose of the Key Systems funding outlined in the Crown funding agreement.
7. **agree** to endorse the SSBC for Key Systems funding and EITHER:
 - a) **approve** the release of the full \$16 million in operational funding to Te Pūkenga as requested in the SSBC; **OR**

Minister of Education

AGREE DISAGREE

Minister of Finance

AGREE / DISAGREE

- b) **approve** the release of \$15.6 million in operational funding to Te Pūkenga, declining the request for \$0.4 million and returning the unspent \$0.4 million to the centre.

Minister of Education

AGREE / DISAGREE

Minister of Finance

AGREE DISAGREE

8. **forward** this briefing to the Minister of Finance for his consideration and decision.

9. **agree** that the Tertiary Education Commission proactively release this briefing once decisions have been made with financial and costing information withheld given it may impact on any future procurement processes undertaken by Te Pūkenga.

Minister of Education

AGREE / DISAGREE



Gillian Dudgeon

Deputy Chief Executive, Delivery
Tertiary Education Commission

15 December 2022



Hon Jan Tinetti

Acting Minister of Education

 26 / 01 / 2023



Hon Grant Robertson

Minister of Finance

 15 / 01 / 2023

Purpose

1. The purpose of this briefing is to provide advice to Joint Ministers on Te Pūkenga's Single Stage Business Case (SSBC) for Key Systems funding.
2. The Treasury supports the option to approve the release of \$15.6 million in Crown funding and return the remaining \$0.4 million to the centre.

Background

Cabinet agreed to provide up to \$121 million to support Te Pūkenga's establishment...

3. In 2020, the Government agreed to provide up to \$121 million in Crown funding to support the establishment of Te Pūkenga, build capability, and commence the integration and transformation of the current network, including supporting greater delivery of on-job learning [CAB-20-MIN-0140 and CAB-20-MIN-0336 refer].
4. As per the Cabinet decision, a funding agreement was established between Te Pūkenga and the Crown which set out the terms and conditions for the funding. The funding agreement is dated 31 August 2020 and was signed by the Minister of Finance and the Minister of Education on behalf of the Crown (B-20-00545 refers).

...with \$20 million allocated for Key Systems funding...

5. As part of the funding package, \$20 million in 'Key Systems' funding was approved for the purposes of establishing and operating key systems that support the financial operations and data analysis of Te Pūkenga. The Crown paid \$4 million of the \$20 million in September 2020 following the Crown funding agreement being signed.
6. The remaining \$16 million in Crown funding is to be paid subject to Joint Ministers endorsing a SSBC which outlines how the remaining funding is to be spent. The funding agreement requires the SSBC to be consistent with the Treasury's Better Business Case guidance and subject to an external Independent Quality Assurance (IQA) assessment.
7. To date, \$105 million of the \$121 million in Crown funding has been provided to Te Pūkenga. The remaining \$16 million of Key Systems funding is the only funding that has yet to be paid.

...and Te Pūkenga has now submitted a SSBC

8. It had originally been envisaged that Te Pūkenga would prepare a business case to access the Key Systems funding in 2020 or 2021 which would allow it to implement projects to support its integration, achieve cost savings, and improve decision-making. However, a lack of progress in key areas and a focus on other activities resulted in little progress being made on the preparation of a business case to access the funding.
9. Over the past six months, supported by the appointment of a Chief Digital Officer in July 2022, greater attention has been placed on identifying the most optimal projects and developing an appropriate business case to submit to Ministers. On 8 December 2022, Te Pūkenga submitted an SSBC seeking to draw down the \$16 million in Key Systems funding. The purpose of the SSBC is to recommend a preferred option that optimises value and seeks approval from decision-makers to formally go to market and to finalise the arrangements for successful implementation.
10. On 31 October 2022, Te Pūkenga submitted a Programme Business Case (PBC) seeking 9(2)(f)(iv) in Crown funding to support its transformation programme. The large majority of funding 9(2)(f)(iv) is for IT systems integration. The PBC assumed the Key Systems funding would be provided. We recently provided advice to you on the PBC (AM-22-00769 refers), which will be considered as part of Budget 2023. To support Budget 2023 decisions,

the PBC has recently been considered by Treasury's Investment Panel given it is a significant proposal. The Investment Panel has recently provided advice on the initiative to the Minister of Finance.

Independent Quality Assurance process

IQANZ has undertaken an IQA review of the business case...

11. IQANZ was contracted by Te Pūkenga to provide an IQA review of the SSBC. IQANZ is the same provider that provided assurance for the PBC. The IQA was undertaken over October and early November and finalised on 7 November 2022. The purpose of the IQA is to assess the business case against the Treasury's Better Business Case guidance and provide Ministers with the assurance that there is enough context and information in the business case to make informed decisions.

...and has assessed the business case as high-quality

12. IQANZ has concluded that the SSBC meets the requirements of the Treasury's Better Business Case framework. The Strategic, Economic, Financial and Commercial Case have all been rated green and "*appropriate and fit for purpose*" while the Management Case was rated as green and "*mostly appropriate and fit for purpose*". The main outstanding issue in the Management Case related to improving the benefits realisation plan and the associated measures.

Key Systems funding request

There is an urgent need for Te Pūkenga to consolidate key systems...

13. The consolidation of institutes of technology and polytechnics and transitional industry training organisations functions into Te Pūkenga has resulted in numerous technology solutions that are not linked and do not allow for centralised organisational oversight. In addition, the large number of systems within the network contribute to a lack of collaboration between staff and difficulty in establishing a sense of belonging within Te Pūkenga as a new organisation.
14. The proposed investment in technology solutions will be a key enabler to move towards a connected, national network, and for people to work together as a single team to deliver Te Pūkenga's transformation and work programme.

...and Te Pūkenga has identified three key projects to be funded...

15. The SSBC seeks \$15.6 million to invest in three technology solutions as follows:
 - **Financial Management Information System (FMIS)** – 9(2)(b)(ii): this will enable core finance functions (e.g. accounts receivable/payable, treasury management) to be centralised. It will also facilitate central processes for legal, contract management, corporate procurement, risk, compliance, and auditing.
 - **Enterprise Performance Management System (EPM)** – 9(2)(b)(ii): this will enable Te Pūkenga to effectively plan, manage and monitor strategic initiatives at a national level, and leverage financial and non-financial data to inform strategic planning, budgeting, and forecasting to monitor the progress of organisation goals. It will also support critical financial activities such as consolidated financial reporting and programme profitability analysis.
 - **Digital Workplace** – 9(2)(b)(ii): this will enable a common, connected intranet, a new default home page for staff, single email addresses, a full address book and calendar visibility, and the ability to share and collaborate on documents with ease. This will reduce barriers to digital collaboration across the network.

...with \$0.4 million being sought to support further planning...

16. The SSBC also seeks \$0.4 million in 'project mobilisation resource'. This funding would enable Te Pūkenga to mobilise and progress the work required for its transformation programme in preparation for 2023. Specifically, it would allow Te Pūkenga to bring in resource to support the development of a technology roadmap and to develop the first of a series of more detailed business cases required for the IT systems integration identified in the PBC.
17. The TEC considers that this project is well intentioned and is integral to the planning of the IT systems integration projects set out in the PBC. However, this funding request is not aligned to the purpose of the Key Systems funding. The Crown funding agreement states it must be used "for the establishment and operations of key systems that support the financial operations and data analysis of NZIST (Te Pūkenga)". As such, we consider Ministers could decide to decline this part of the request if they choose.

...with the delivery of the three projects providing a range of benefits...

18. The implementation of the three technology solutions will result in the following primary benefits:
- *Improved financial outcomes for Te Pūkenga* – the implementation of the FMIS and EMP tools will result in direct cost savings, improved operating efficiencies, and reduced staffing levels while providing Te Pūkenga with centralised oversight to better monitor financial and non-financial performance, make informed decisions, and ensure effective risk management.
 - *Increased collaboration across the network* – the implementation of a digital workplace will support greater information sharing, better communication, and increased collaboration which will help Te Pūkenga operate as one network and drive greater innovation, ultimately delivering better outcomes for New Zealand.
 - *Better outcomes for traditionally underserved learners* – the implementation of the tools will provide Te Pūkenga with the ability to track traditionally underserved learners' participation, engagement, and success more easily, and therefore better respond to the needs of learners and communities.

...and the programme of work is expected to deliver a positive NPV...

19. Te Pūkenga has undertaken net present value (NPV) analysis which shows the implementation of these three projects will result in a positive NPV to Te Pūkenga of [redacted] over the next 10 years. This translates to a benefit-cost ratio of [redacted].
20. The key benefit realised by the projects is cost savings as a result of fewer FTEs, which accounts for [redacted] of the benefits. The remaining [redacted] is due to the consolidation in software licencing costs. We would note that there are also wider non-monetary benefits around improved effectiveness and decision making that have not been quantified. This is an area which the TEC considers requires substantial improvement.

...with savings to be driven by reduced software licencing costs...

21. By migrating from 25 individual FMIS systems and three EPM products to one FMIS and one EPM, savings can be made in software licencing costs. However, these saving are dependent on the expiry of existing contracts so will take time to be fully realised. Annual software licencing savings are expected to begin to take effect from 2025 and will total over [redacted] per annum from 2027 onwards. Over the entire 2022 to 2032 period, Te Pūkenga estimate total software licencing savings of [redacted].

...and a reduction of staff numbers, largely due to the implementation of a new FMIS

22. With the implementation of a single FMIS and EPM, Te Pūkenga estimate a reduction of [redacted] in finance positions, from [redacted] in 2022 to [redacted] in 2026. A reduction of [redacted]

FTEs is expected in each of 2023 and 2024 with a further 9(2)(b) FTEs in 2025. This will result in an estimated reduction in personnel costs of approximately 9(2)(f)(iv) per annum from 2026 onwards. Over the entire 2022 to 2032 period, Te Pūkenga estimate total personnel savings of 9(2)(f)(iv).

Procurement and implementation

The commercial arrangements outlined in the SSBC are fit for purpose...

23. The procurement plan is split into four different areas to support the procurement of the four investments, namely:
- Procurement and installation of a new FMIS for Te Pūkenga followed by a consolidation of all existing FMIS in use.
 - Procurement and installation of an EPM tool for rollout across all of Te Pūkenga, replacing any such tools currently in use.
 - The procurement of a digital workplace and the resource required to install and configure this to meet the needs of the organisation.
 - If the \$0.4 million investment for the mobilisation of resource is received, this will be procured using Te Pūkenga's normal process for on-boarding contract resource.
24. The proposed approach to market complies with the Principles of Government Procurement, the Government Rules of Sourcing, and Te Pūkenga's procurement policies and is designed to ensure competitive tension with potential implementation partners. PwC has been used for expert advice as part of the development of the procurement plan.
25. For the three technology solutions, Te Pūkenga will need to procure both a product and an implementation partner. Te Pūkenga plan on an open, one-step competitive request for proposals (RFP) approach to ensure competitive tension exists. The RFPs have been prepared so that they can be advertised immediately following any approval of the SSBC.

...with delivery expected to mainly occur over 2023...

26. Subject to approval of the SSBC, Te Pūkenga plan to complete procurement for all three projects by April 2023. The EPM solution is expected to be implemented by November 2023 while the FMIS is expected to be implemented by June 2024. The digital workplace solution is comprised of various items and Te Pūkenga will focus on those that will provide maximum impact in terms of bringing a sense of belonging within Te Pūkenga, with all items forecast to be completed by the end of 2023.
27. We consider these timelines are relatively ambitious, particularly given the level of organisational change that is currently underway and the size and complexity of its wider work programme. This issue was also raised in the IQA, with the EPM solution timeframes considered especially ambitious. As such, we consider there is a risk that there may be some slippage on the timeframes noted in the SSBC. Te Pūkenga will need to consider this as part of its contract management approach.

...and the majority of funding to be on implementation c 9(2)(f)(iv)

28. The Key Systems funding will cover operating expenditure for software licences and implementation costs of the three solutions. Te Pūkenga is seeking 9(2)(b)(i) of Crown funding for software licencing costs for 2023 with Te Pūkenga then covering all licencing costs from 2024 onwards. Implementation costs are estimated to be 9(2)(b)(ii), with all funding to be committed in 2023 and the majority to be incurred in 2023 (with the remainder in 2024). All implementation cost estimates have an inbuilt contingency of 25 percent with a 10 percent contingency being built into software solution costs. The majority of implementation costs relate to vendor people resources.

29. The costings have been developed with the assistance of external resource from PwC and will be refined further following the formal RFP process. Te Pūkenga will need to manage any cost overruns itself.

...with 9(2)(b)(ii) allocated to ensure strong cyber security

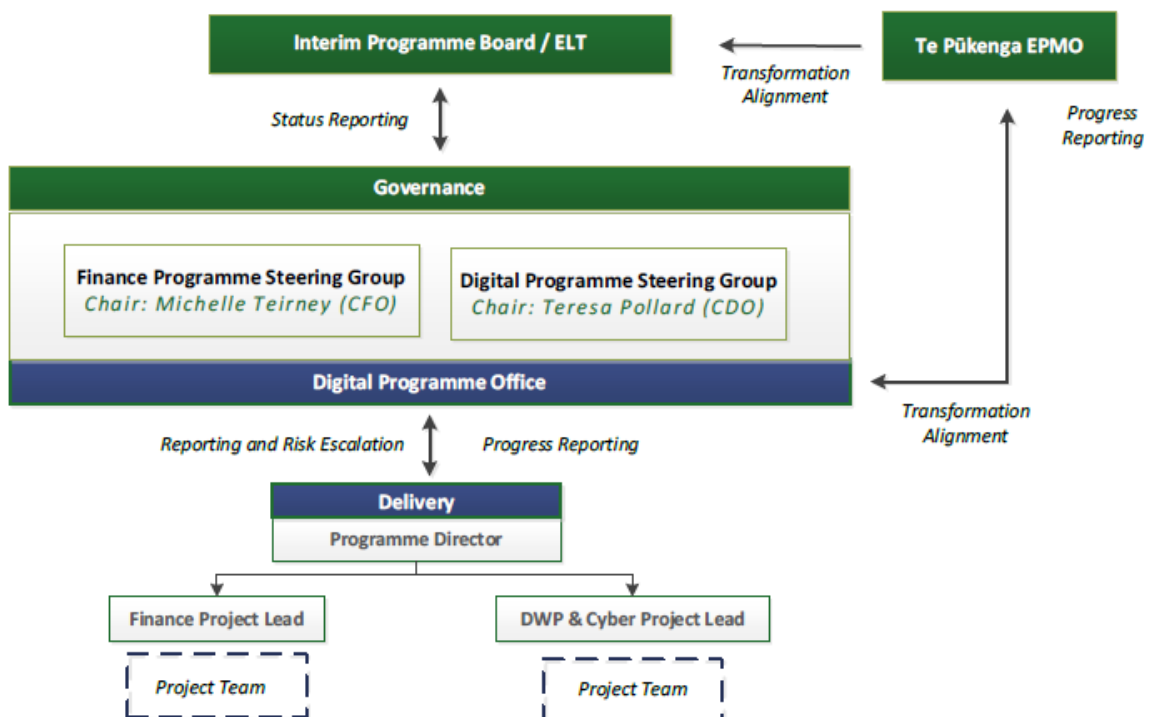
30. To ensure that the cyber security aspects of the preferred solutions are considered appropriately, a separate project stream will be setup to provide oversight and management off all cyber security elements of the work being delivered. This investment will reduce the risk of cyber-attacks and protect against the unauthorised exploitation of systems, networks, and technologies. A total of 9(2)(b)(ii) of the 9(2)(b)(ii) has been allocated for the implementation of the correct controls across all three projects.

Management and governance of the key systems projects

Appropriate governance and management structures have been put in place...

31. The SSBC clearly sets out the governance and management structures that have been put in place to deliver the projects successfully. A programme lead will be appointed for each of the three projects who will have full responsibility for their delivery. A Key Systems Programme Director will also be put in place to provide oversight of all three projects and have responsibility for risk management, reporting, and benefits monitoring. The Programme Director will be the interface between the project delivery teams and the Digital Programme Office. There will also be a link with Te Pūkenga’s Enterprise Programme Management Office to ensure alignment with other transformational activities. Te Pūkenga’s change team and communications and engagement team will provide support across all three projects.

32. Two Programme Steering Groups (PSGs) will be set up to govern the projects and monitor overall risk and progress. One PSG will be focussed on the FMIS and EMP projects and will be chaired by the Chief Financial Officer while a second PSG will be chaired by the Chief Digital Officer to provide oversight of the digital workplace and cyber security projects. The two PSGs will report directly into Te Pūkenga’s Programme Board. The arrangements are outlined in the diagram below. We plan on engaging with Te Pūkenga on including independent members to its PSGs and/or its Programme Board to support best practice and better decision-making.



...and targets have been established for measuring progress against the proposed benefits...

33. Te Pūkenga has established a range of measures against its three primary benefits, with annual targets identified for the 2023 to 2026 period. The Programme Director has responsibility for benefits management and reporting, and quarterly updates will be provided to the PSGs to ensure projects are delivering on the proposed benefits.
34. Te Pūkenga has also committed to undertaking post-project evaluations. In line with good practise, a post-implementation review will be scheduled to confirm that:
 - the projects have been delivered to time, cost, and specifications.
 - the new systems are operating as intended and delivering the services and benefits proposed in the SSBC.
 - to identify any lessons learned from the management of the programme that can be applied to future projects.

...and the key risks appear manageable

35. Te Pūkenga has identified seven key risks that might impact on the achievement of the investment objectives. These are outlined below, alongside mitigation strategies. We consider the identified risks are reasonable and manageable.

Risk	Assessment	Te Pūkenga comment and mitigation
Complexity of migration due to the large number of existing systems may cause delays	High	Detailed analysis of migration methods will be undertaken prior to implementation. A detailed RFP will be used to ensure migration is incorporated by the vendor in the workplan. Staged migration will assist in minimising impact.
Lack of an operating model may mean the solutions do not align to the operating model	High	The organisation design teams had input into the SSBC to ensure that any technical solution supports the proposed operating model. Solutions will adhere to the concept of national, regional, and local delivery.
Lack of staff and subsidiary engagement may mean the investment objectives are not fully realised	Medium	The development and implementation of a staff engagement plan will ensure staff are brought along on the journey.
Scope creep may mean compromises must be made which could limit achievement of the investment objectives	Medium	Scope creep will be mitigated by using rigorous project methodology and developing a clear RFP. Strong project governance will be implemented. A programme assurance management plan is being put in place.
Change management fails to deliver a smooth and efficient transition	Medium	Specialist change resource will support the transition. A communications and channel plan regarding milestones and expectations of progress will be developed and progress will be transparently measured and reported. Strong project governance will be implemented. A programme assurance management plan is being put in place.
Implementation of solutions may negatively impact business as usual operations	Medium	Migration strategies will be developed, with migration to be considered on a case-by-case basis with both functional and regional consolidation considered. Lower impact areas will be targeted first and used as learnings to inform later migrations.
Insufficient resourcing of project may cause delays	Medium	External resource will be used to undertake the majority of implementation. Strong project governance will be in place to reduce the risk of scope creep and allow for proactive management of schedule changes. A programme assurance management plan is being put in place.

36. A risk management strategy, and risks and issues registers have been developed and will be regularly and progressively updated throughout the project as more information comes available.

Ministerial endorsement of the SSBC

We recommend Ministers endorse the SSBC...

37. We recommend Joint Ministers endorse the SSBC which will trigger the release of \$15.6 million in Crown funding and allow Te Pūkenga to issue RFPs to select preferred vendors for implementation of the three projects.
38. Te Pūkenga has produced a robust SSBC that meets the Treasury's Better Business Case guidance, and no major issues were found in the IQA. We support investment in the three technology solutions identified. To date, the financial and performance reporting provided to Council has been poor and there has been a lack of insight into what is driving operational and financial issues and what actions are being put in place to address them. This is an issue we have raised several times in our quarterly reporting to you over the past year.
39. The three proposed technology solutions will provide Te Pūkenga with the ability to monitor and manage its business more effectively, improve strategic planning, and ensure compliance. This should help improve decision making and ultimately financial sustainability. It will also support greater collaboration across the network and the realisation of cost savings through becoming a national provider and reducing duplication. As such, we consider the strategic rationale for the projects is strong.

...and there is strong alignment between the SSBC and the PBC...

40. The Crown funding agreement also requires the SSBC be consistent with Te Pūkenga's long-term Information Systems Strategic Plan (ISSP). Te Pūkenga has yet to finalise its ISSP. Phase one of the development of an ISSP has already been undertaken, which resulted in a business reference model being produced that identified Te Pūkenga's key technology needs. This work enabled the development of both the SSBC and the PBC. A single multi-disciplinary team has responsibility for development of the ISSP and both business cases, so there is strong alignment between all of the related areas. We are comfortable that the SSBC is aligned with Te Pūkenga's long-term strategic direction. The ISSP will be completed in 2023 following the finalisation of Te Pūkenga's operating model.

...but a decision needs to be made around the request for 'project mobilisation resource'...

41. Te Pūkenga has requested the remaining \$0.4 million of Key Systems funding is released to enable it to develop a technology roadmap and the first of a series of more detailed business cases required for the IT systems integration identified in the PBC. The rationale behind this request is that Budget 2023 announcements will not be made until May 2023, and if Te Pūkenga were to wait until a funding decision is made before commencing work on its transformation programme, the programme will be delayed.
42. As highlighted in paragraph 17, this request is not aligned to the purpose of the Key Systems funding as outlined in the Crown funding agreement (although it does remain within the scope of the appropriation). It would therefore be reasonable to decline this part of the request. If this part of the request was not approved, we would still expect Te Pūkenga to find an alternative funding source to progress this work so that it was ready to advance its transformation programme following any Budget 2023 decisions.
43. Nevertheless, as co-signatories of the Crown funding agreement, Joint Ministers could decide to provide the additional \$0.4 million to Te Pūkenga. This would provide a key benefit to Te Pūkenga by allowing it to undertake further planning, develop sequencing of the IT systems integration, and begin the preparation of further business cases. It would also support their overall financial position.
44. If Ministers decide not to provide the \$0.4 million in funding, it will be returned to the centre at the next baseline update.

...and there would be a negative impact on Te Pūkenga if Ministers did not support the SSBC

45. As part of its PBC, Te Pūkenga assumed that it would receive the \$15.6 million in Key Systems funding to implement a single FMIS, EPM and digital workplace. If Ministers do not endorse the SSBC or provide the Key Systems funding, Te Pūkenga will have to fund the projects from other sources (e.g. existing cash reserves) which will impact on the overall affordability of Te Pūkenga's transformation programme. It is also likely that Te Pūkenga would delay implementation or descope the proposed projects which would result in the signalled benefits not being achieved.

Next steps

46. If you decide to endorse the SSBC, please forward this briefing to the Minister of Finance for his consideration and endorsement. If the Minister of Finance also agrees to endorse the SSBC, the TEC will make payment of the agreed amount (either \$15.6 million or the full \$16 million) as soon as practicable.
47. We will also draft a letter for you to send to the Chair of Te Pūkenga informing him of the decision once we have confirmation of the final funding decision.
48. We will provide updates on the progress of the Key Systems investment as part of our regular quarterly monitoring reports to you.